



Committed to the future of rural communities.

Affordable Rental Housing for Rural America





USDA Rural Housing Service's Multi-Family Housing Programs

People with low or moderate incomes often have trouble finding adequate rental housing in rural areas, and in many cases available housing is substandard.

Lack of affordable rental housing can have profound effects on a rural community. Elderly citizens who are unable to remain in the homes they've owned for years may not be able to find a suitable place close to the amenities they need. Members of the local workforce unable to find suitable living arrangements may also be forced to move or to live in substandard housing. Not only does economic growth suffer, but the very fabric of community life can be destroyed by depopulation.

USDA Rural Development administers the Federal Government's primary program addressing America's need for affordable rural housing. Under the Rural Rental Housing Loan programs, Rural Development makes competitive mortgage loans to build affordable multi-family rental housing in rural areas. The agency also guarantees loans made by conventional lenders for that purpose. Loans are available to house very-low- to moderate-income families, farm workers, the elderly, and persons with disabilities. Rural Development employees work in partnership with business people, government entities, citizens, and nonprofit organizations to develop a housing solution that works for each rural community.

USDA housing programs have existed since 1935, when the first rural housing loans were made under what was then the Resettlement Administration. Since then, the programs have operated under a series of USDA agencies: the Farm Security Administration, followed by the Farmers Home Administration, and then USDA Rural Development, instituted in 1994.

Loans to build multi-family housing first became available in 1949. However, the rural rental housing effort really began to make an impact in the 1960s, when Congress allowed Federal income tax write-offs on program loan payments.

Today, more than 461,000 rental units in 16,939 complexes across the Nation are financed by loans through USDA multi-family housing programs. Multi-family complexes provide clean and pleasant housing for people who could not otherwise afford it. Nearly half of Rural Development's multi-family housing portfolio provides shelter for elderly residents, giving them the opportunity to live in dignity in their own communities. Seventy percent of tenants are single heads of households, and 50 percent are elderly or disabled. The average annual income of tenants in USDA-financed complexes is only \$9,452. Farm labor housing allows agricultural workers to live in decent surroundings close to vital services – a sharp contrast to the conditions they traditionally face.

Loans are made for new construction, rehabilitation of existing units, and to continue providing safe and affordable rental housing in areas in which rents are increasing. Funds are provided in a variety of ways. Subsidized credit is available to developers of affordable multi-family and farm worker housing; rents may be further subsidized, and grants are made to nonprofit or community organizations to bring deteriorating housing up to code.

Rural Rental Housing (Section 515)

This program makes loans with interest as low as 1 percent to developers of affordable rental housing. Almost 90 percent of the tenants in these properties have incomes below 50 percent of the median income in the areas in which they live.

Housing under the 515 program is available to families, persons 62 years of age or older, and persons with disabilities. All Section 515 tenants must have very low, low, or moderate incomes. Very low income is defined as below 50 percent of the area median income (AMI). Low income is between 50 and 80 percent of AMI. Moderate income is capped at \$5,500 above the low-income limit. The vast majority of tenants fall into the low- or very-low-income categories.

Housing complexes financed under the program must be located in rural areas, which include communities with populations of 20,000 or less. While most loans are made for new construction, funds are also available to renovate certain buildings for housing. Loans may also be used for

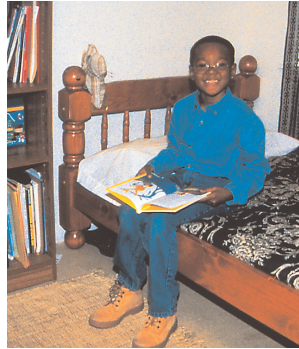
other purposes related to the apartment complex. These could include buying and improving land, and providing necessary facilities such as water and waste disposal systems.

Loans are made for rental complexes under the following categories:

- Multifamily rental housing;
- Purchase and rehabilitation;
- Congregate housing;
- Group homes for persons with disabilities.

Eligible Borrowers

The section 515 program loans are available to a wide variety of investors or developers. Loans can be made to individuals, trusts, associations, partnerships, limited partnerships, state or local public agencies, consumer cooperatives, Native American tribes, and profit or nonprofit corporations. For-profit borrowers must agree to operate on a limited-profit basis (currently 8 percent of initial investment), and to provide rental units for occupancy to eligible individuals or families.



Loan Terms

The maximum repayment period is 30 years with a 50-year amortization. All applicants are required to provide initial operating capital equal to at least 2 percent of the cost of the complex. For not-for-profit organizations and state and local public agencies, fees for application packaging and the 2 percent operating capital may be included in the loan as part of the development cost.

Loans to not-for-profit organizations and state or local public agencies can be for up to 100 percent of the appraised value or development cost, whichever is less. Loans to all other applicants are limited to not more than 97 percent of the appraisal value or development cost, whichever is less, for those proposals not using Low Income Housing Tax Credits (LIHTC). For those proposals using LIHTCs, the maximum is 95 percent.

Security Requirements

Each loan is secured in a manner that adequately protects the financial interest of the Federal Government. Rural Development takes a mortgage on the property purchased or improved.

Evaluation of Applications

Applications are made at the USDA Rural Development State office serving the State or Territory in which the housing will be located. USDA uses “needs criteria” to establish a list of targeted communities for which applicants may request loan funds. The applications are rated competitively to select recipients.

Every year, Rural Development establishes in each State a list of communities targeted for section 515 assistance. These lists are available from USDA Rural Development State offices. The agency also publishes an announcement of the available funding in the *Federal Register*, in the form of a Notice of Funding Availability (NOFA). Generally, the NOFA is published around Dec. 1, or as soon as possible after the start of the fiscal year.

The NOFA includes the following:

- The funding levels available for the year’s program;
- The information that applicants must submit in their proposal;
- The criteria USDA will use to evaluate and rank proposals;
- The deadline for submitting proposals; and
- The State office addresses to which proposals must be sent.

Information regarding the availability of funds for new complexes may be obtained from USDA Rural Development State and regional offices (see We’re Here to Help, below). Before a loan can be approved, applicants must provide detailed plans, specifications, and cost estimates. The applicant is responsible for providing complete architectural services, including inspections during construction. Rural Development reviews the plans and inspects the construction as it progresses. USDA Rural Development State directors are authorized to approve loans of up to \$3 million. The USDA Rural Development national office must review all requests for loans above that amount.

Borrowers who are builders and capable of constructing a complex may obtain a loan under the same conditions as any other applicant. The builder-applicant may be permitted a contractor's fee typical for the area.

All borrowers are encouraged to obtain interim construction funds from other lenders. The borrower must show that alternative construction funds are not available before USDA will provide such funds.



Rental Assistance (Section 521)

The Rental Assistance program provides a rental subsidy for many of the tenants in Rural Rental or Farm Labor Housing complexes. Tenants living in rental assistance units pay no more than 30 percent of their income in rent. Rent includes the cost of monthly rental payments to the owner plus a utility allowance.

Rural Rental Housing Guaranteed Loan Program (Section 538)

This relatively new program, started in 1996, guarantees loans for affordable rural rental housing made by eligible conventional lenders. It is intended to address the needs of rural Americans who have incomes higher than those typically served by the section 515 Direct Rural Rental Housing program, but who are unable to afford buying their own homes or wish to live in an apartment setting.

The section 538 program serves low- to moderate-income tenants: apartments are intended for occupation by families whose incomes are no more than 115 percent of the median income in the area. It thus complements the Rural Rental Housing direct loan program, which serves mainly very-low-income tenants.

Like the section 515 program, housing projects financed under section 538 must be located in areas defined as rural. However, while the direct loan program places restrictions on the location of housing, section 538 complexes may be located anywhere within a rural area as determined by market conditions.

Farm Labor Housing Program (Section 514/516)

Farm workers, often the most poorly housed people in the country, sometimes live in dwellings without running water, or in crowded, poorly built dormitories. USDA Rural Development is the only national source of construction funds for dedicated farm labor housing.

The Farm Labor Housing programs provide low-interest loans and grants to public or nonprofit agencies or to individual farmers to build affordable rental housing for farm workers.

These programs provide assistance to build housing for both migrant and year-round laborers. Most of the housing developments built through these programs are off-farm rental units available to eligible farm workers of any farming operation. However, a small number of on-farm units are built each year with USDA assistance to provide housing for farm employees. Today, thousands of housing units across America provide decent, safe, and sanitary housing for domestic farm workers and their families, thanks to these programs.

Housing Preservation Grant Program (Section 533)

Housing Preservation grants are used to renovate deteriorating homes and rental properties occupied by families whose incomes fall into the low and very-low categories. Nonprofits, local governments, and Native American tribes can receive grants to repair these properties and bring them up to code. Since grantees usually receive blocks of funds that they spend in a specific geographic area, this program not only helps provide individuals with better homes, but also can revitalize entire communities.

Section 533 grants are almost always used in conjunction with funds from other sources, including local and State governments and grants from private business. Leveraging funds in this manner means that taxpayer dollars go further and accomplish more than would otherwise be possible.

We're Here to Help

Whether you are a developer seeking a secure investment, or a local government or non-profit organization looking to address community housing concerns, USDA Rural Development wants to help. USDA employees can use the experience gained from more than 50 years of financing multi-family housing in forging a partnership with your community to address its housing needs.



For more information about Rural Development multi-family housing programs, contact your local USDA Rural Development regional office. These are usually listed in telephone directories under "Federal Government, Department of Agriculture." Rural Development State offices can also provide further information as well as the address of your regional office. To be connected to your State office, telephone (202) 720-4323, then press 1 and follow the directions.

Further information, including the locations of State and regional offices, is also available on the USDA Rural Development Web site at:

<http://www.rurdev.usda.gov/rhs/index.html> or from the agency's national office at the following address:

USDA Rural Development, STOP 0701
Rural Housing Programs
1400 Independence Avenue, SW
Washington, DC 20515-0701

Telephone: (202) 720-3773
Fax: (202) 690-3025

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PA 1691
Published June 2001
Slightly revised March 2005